

Chapter 7: Private Sector Funding Sources

7.1 Introduction

Private sector funding sources were the major contributors to total health funding in the early years of the New Zealand health services. However, after World War II, public sector funding has pushed the private sector contribution into second place.

Private sources of funding are household out-of-pocket expenditure, health insurance and not-for-profit organisations. Together, they accounted for around 23.3% of total health expenditure in 2000/01, down from 23.4% in 1992/93, but higher than the low of 12% in 1979/80. Out-of-pocket expenditure by private households is the largest component of private sector funding, contributing around 16.8% of total health expenditure in 2000/01, while health insurance and not-for-profit organisations contributed 6.2% and 0.3% respectively.

Private sector funding in 2000/01 accounted for approximately 74% of private hospital surgical and medical expenditure (and 16.5% of total medical and surgical expenditure), 51% of general practitioner payments, 35% of medicaments (largely pharmaceuticals) expenditure, 33% of referral services and 74% of expenditure on dental services.

7.2 Out-of-pocket expenditure

Data relating to out-of-pocket expenditure for 2000/01 are derived from the Household Economic Survey (HES), which is produced by Statistics New Zealand every three years. The Ministry of Health estimated out-of-pocket expenditure in 1998/99 and 1999/2000 using data from the HES for 1994/95 to 1997/98. The actual increase in out-of-pocket expenditure reported in 2000/01 is sharply higher when compared to the estimate used for 1999/2000. This has the impact of making the change in the current year look more pronounced.

Certain features of the HES are relevant to the analysis of the reported and estimated trends. The survey includes expenditure on some 'non-health' goods and services¹³ which are excluded from this and previous reports as they fall outside the WHO definition of health-related expenditure. By taking into account only the net cost of health insurance subscriptions (to avoid double counting), *Health Expenditure Trends in New Zealand* also recognises that a part of the expenditure on health insurance premiums is reimbursed to subscribers.

¹³ These include slimming preparations, soothing preparations, suntan preparations, cotton wool, dental floss, cotton balls, insect repellents, rest home and convalescent home fees, and welfare fund contributions.

Other expenditure excluded from the estimates in this and previous reports includes expenditure by non-private householders living in hotels, hospitals, retirement homes, boarding houses, army camps and prisons; by people in judicial custody; by businesses, clubs, trusts and others outside the household sector; and by overseas residents visiting New Zealand. Also excluded is expenditure on household goods and services less than \$200 while householders were away from home for more than four days. Consequently, out-of-pocket expenditure will be understated, but trends should not be significantly affected.

7.2.1 Expenditure trends

The trends in out-of-pocket expenditure from 1989/90 to 2000/01 are reported in detail in Appendix 4A, while the breakdown of this expenditure during 2000/01 is provided in Appendices 5A and 6A. During the review year, the major components of household out-of-pocket expenditure on health were medicaments including pharmaceuticals (23%), dental care (20%), general practitioner care (19%) and surgical and medical care (10%); most of these services were provided by the private sector.

Total out-of-pocket expenditure on health increased from \$733.6 million in 1989/90 to \$1,657 million in 2000/01. In nominal terms the rate of this increase was approximately 7.7% per year (5.7% in real terms).

7.3 Health insurance

Estimates of health insurers' total expenditure on health care during the review year are based on data provided by the executive director of the Health Funds Association of New Zealand Inc. The estimates show that expenditure by the insurance industry on health increased by 8.8% in 2000/01, compared with 6.4% a year earlier.

During 2000/01, health insurance accounted for around 6.2% of all spending on health, compared with 6.3% in 1999/2000 and 2.8% in 1989/90.

Table 7.1 Proportion of the New Zealand population covered by medical insurance (by age group), 1999/2000–2000/01

	Age group (in years; males and females combined) (%)						
	0–4	5–14	15–24	25–39	40–59	60 or over	All ages
1999/2000	18	31	30	32	48	31	34
2000/01	18	30	31	33	48	31	35

Source: Statistics New Zealand (1999–2001)

Table 7.1 gives details of insurance coverage by age group across the population for 1999/00 and 2000/01.

7.3.1 Expenditure trends

Aggregate health insurance expenditure grew from \$141.7 million in 1989/90 to \$610.2 million in 2000/01. The average annual growth in nominal insurance expenditure during the period was 14.2% (12.1% in real terms). A breakdown of trends in health insurance expenditure by category since 1989/90 is given in Appendices 7A and 7B.

7.4 Voluntary and not-for-profit organisations

Major non-profit organisations, including the Royal New Zealand Plunket Society, the New Zealand Family Planning Association, Barnardos, the New Zealand Cancer Society, Diabetes New Zealand, Presbyterian Support Services, the Arthritis Foundation, the Asthma Foundation and others, provide voluntary health-related services. The funding for these comes from government agencies as well as the organisations' own fund-raising efforts. Funding reported here is derived from non-government sources.¹⁴

A sample of these organisations was surveyed and the health expenditure data they provided were applied to the estimates of health expenditure for this subsector in 1999/2000 to arrive at the expenditure 2000/01 estimate.¹⁵

7.4.1 Expenditure trends

Expenditure by the not-for-profit sector grew from \$17 million in 1989/90 to \$32.9 million in 2000/01. This represents an average growth during the review period of 6.2% per year (4.2% in real terms).

7.5 Trends in uses of private source funding

The trends in private source funding from 1998/99 to 2000/01, in private and public institutions and community care services by category, are presented in Table 7.2.

¹⁴ Many of these organisations received income from the HFA or Ministry of Health in 2000/01 to provide a variety of services. To avoid double counting, their expenditure from this source is not recorded here.

¹⁵ All organisations who provided information are listed in Appendix 10.

Table 7.2 Destinations of private health funding, 1998/99–2000/01

	1998/99		1999/00		2000/01	
	\$000	% of total	\$000	% of total	\$000	% of total
Public institutions						
Personal health	2756	0.1	2906	0.1	3952	0.2
Disability support	0	0.0	0	0.0	0	0.0
Total public institutions *	2756	0.1	2906	0.1	3952	0.2
Private institutions						
Personal health	478,514	25.5	549,031	27.9	534,690	23.2
Disability support	18,149	1.0	16,064	0.8	15,815	0.7
Total private institutions *	496,663	26.5	565,095	28.7	550,505	23.9
Total institutional care *	499,419	26.7	568,000	28.9	554,457	24.1
Community care						
Personal health	1,363,901	72.8	1,388,128	70.5	1,732,516	75.3
Disability support	4358	0.2	5903	0.3	6555	0.3
Total community care *	1,368,259	73.0	1,394,047	70.8	1,739,071	75.6
Public health	4568	0.2	4946	0.3	5134	0.2
Teaching and research	843	0.0	982	0.0	1,332	0.1
Ministry of Health expenditure	0	0.0	0	0.0	0	0.0
Total expenditure *	1,873,090	100.0	1,967,958	100.0	2,299,994	100.0

Source: Ministry of Health

* Totals may be affected by rounding.

Community care personal health expenditure in 2000/01 has increased by 24% over the previous year, and now comprises 75.3% of total private health funding. Most of the increase relates to out-of-pocket expenditure.